Weekly Economic Review

Rig activity at historic lows

Oil and Gas Drilling

Rig count tracks 2009 lows

There were 73 rigs drilling in Alberta on average during June, a decrease of 51% year-over-year (y/y). Rigs continue to follow the fifteen year minimum, as activity is near 2009 lows (Chart 1). Rig utilization stands at 14%, the lowest June level since 2009. Nationally there were 123 rigs in operation, down 47% y/y. In the United States, 861 rigs were operating in June, a decrease of 54% y/y due to declines in both oil and gas drilling.

Very little conventional drilling

Statistics on the number of metres drilled come out two months later than the rig count, with the latest data available for April. Alberta rigs drilled 296,000 metres in April, tumbling 68% y/y. This is similar to drilling activity in 2009, the last time oil prices plunged. Metres drilled for oil were down 82% y/y. Conventional drilling was hit particularly hard, with just 15,000 metres drilled, compared with 304,000 last April, a 95% decline. Drilling for bitumen was down 62% to 74,800. Natural gas drilling was strong last spring, because of high demand; activity has returned closer to 2013 levels, falling 51% y/y.

Oil and Gas Forecast

Expansion even with low prices

The Alberta Energy Regulator (AER) expects Alberta oil production to rise to 4.9 million bpd in 2024 from 3.2 million bpd in 2014. The growth comes from a near-doubling in oilsands production to 4.5 million bpd in 2024, representing 90% of future oil production. Natural gas production is expected to slow gradually, with 2024 production 12% lower than in 2014. The fall in oil prices is expected to cause oil and gas investment to decline by 31% in 2015 to $38.6 billion dollars, rising to just $41.2 billion in 2024.

Real GDP by industry

Canada's contraction continues

Real GDP contracted for a fourth-straight month in April, falling 0.1% month-over-month (m/m). Oil and gas extraction fell for the second-straight month, down 3.4% m/m, as nonconventional production fell 7.4%. This was the largest two-month decline since April 2009. After plunging to a 15-year low in March, support activities for mining and oil and gas rose 10%, but were still down 45% compared with April 2014. Manufacturing contracted for the fifth month in six, shrinking 0.2% Service industries provided some offset, growing by 0.3% m/m.

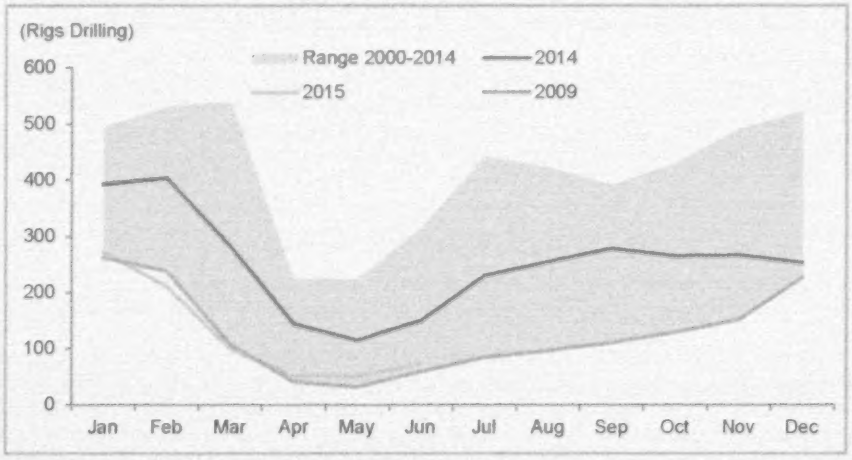
US Employment

Steady job growth continues

The US labour market continued improving in June, creating 223,000 jobs, slightly above an average of 208,000 jobs-added per month in the first half of 2015. Nearly all of the new jobs were created by private sector service industries, led by business and professional services, and education and health. The mining sector continued to shed jobs and has lost 71,000 positions year to date. Broader indicators are also steadily improving. Since January, the average duration of unemployment declined by 4.2 weeks and the number of long-term unemployed has fell by 679,000. The unemployment rate dropped 0.2 percentage points in June to 5.3%, the lowest level since mid-2008.

Chart 1: Rig activity has been similar to the 2009 downturn

Monthly average number of oil and gas rigs drilling in Alberta



Sources: Canadian Association of Oilwell Drilling Contractors

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Please see the *Alberta Economy- Indicators at a Glance* for a snapshot of Alberta indicators.